exec roll call 3-29-00

Vote Record

Senate Committee on Economic Development, Housing and Government Operations

Date: 3-29-00

Moved by: Grob

Seconded by: Drz

AB:

AB: 735

SB:

AJR:

SJR:

A:

SR:

Clearinghouse Rule:

Appointment:

Other:

A/S Amdt:

A/S Amdt: to A/S Amdt:

A/S Sub Amdt:

A/S Amdt: to A/S Sub Amdt:

A/S Amdt: to A/S Amdt: to A/S Sub Amdt:

Be recommended for:

- ☐ Passage
- ☐ Introduction
- ☐ Adoption
- ☐ Rejection
- ☐ Indefinite Postponement
- ☐ Tabling
- ☒ Concurrence
- ☐ Nonconcurrence
- ☐ Confirmation

Committee Member	Aye	No	Absent	Not Voting
Sen. Robert Wirch, Chair	✓	☐	☐	☐
Sen. Gwendolynne Moore	☐	☐	☐	☐
Sen. Richard Grobschmidt	✓	☐	☐	☐
Sen. Gary Drzewiecki	✓	☐	☐	☐
Sen. David Zien	☐	☐	☐	☐
Totals:				

☐ Motion Carried ☐ Motion Failed

SENATE HEARING SLIP
(Please Print Plainly)

DATE: 3/29/00

BILL NO. AB 735
or
SUBJECT Single Sales Factor apportionment

Steven K. Bartels
(NAME)
10801 Corporate Drive
(Street Address or Route Number)
Pleasant Prairie, WI 53158
(City and Zip Code)
Snap-on Incorporated
(Representing)

- Speaking in Favor: ☑
- Speaking Against: ☐
- Registering in Favor: but not speaking: ☐
- Registering Against: but not speaking: ☐
- Speaking for information only; Neither for nor against: ☐

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State Capitol – B35 South
P.O.Box 7882
Madison, WI 53707-7882

SENATE HEARING SLIP
(Please Print Plainly)

DATE: 3-29-00

BILL NO. AB-735
or
SUBJECT

John Bechler
(NAME)
600 52nd Street
(Street Address or Route Number)
Kenosha, WI 53140
(City and Zip Code)
Kenosha Area Bus Alliance
(Representing)

- Speaking in Favor: ☒
- Speaking Against: ☐
- Registering in Favor: but not speaking: ☐
- Registering Against: but not speaking: ☐
- Speaking for information only; Neither for nor against: ☐

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Madison, WI 53707-7882

SENATE HEARING SLIP
(Please Print Plainly)

DATE: 3·29·00

BILL NO. AB 735
or
SUBJECT

JERRY FRANKE
(NAME)
10411 CORPORATE DR
(Street Address or Route Number)
PLEASANT PRAIRIE, WI 53158
(City and Zip Code)
WISPARK CORP
(Representing)

- Speaking in Favor: ☒
- Speaking Against: ☐
- Registering in Favor: but not speaking: ☐
- Registering Against: but not speaking: ☐
- Speaking for information only; Neither for nor against: ☐

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SENATE HEARING SLIP
(Please Print Plainly)

DATE: March 29, 2000

BILL NO. A.B. 735
or
SUBJECT: ____

Joe Andrea
(NAME)

(Street Address or Route Number)

(City and Zip Code)

(Representing)

Speaking in Favor: ☑

Speaking Against: ☐

Registering in Favor: but not speaking: ☐

Registering Against: but not speaking: ☐

Speaking for information only; Neither for nor against: ☐

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SENATE HEARING SLIP
(Please Print Plainly)

DATE: 3-29-2000

BILL NO. AB 735
or
SUBJECT: Single Sales Factor

Mark Gelhaus
(NAME)
12301 W. Wirth St.
(Street Address or Route Number)
Wauwatosa, WI
(City and Zip Code)
Briggs & Stratton Corp
(Representing)

Speaking in Favor: ☒

Speaking Against: ☐

Registering in Favor: but not speaking: ☐

Registering Against: but not speaking: ☐

Speaking for information only; Neither for nor against: ☐

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Madison, WI 53707-7882

SENATE HEARING SLIP
(Please Print Plainly)

DATE: 3-29

BILL NO. AB 735
or
SUBJECT: ____

Bill Reis & Jere McGaffey
(NAME)
756 N. Milwaukee St.
(Street Address or Route Number)
Milwaukee, WI 53202
(City and Zip Code)
MMAC, Foley & Lardner
(Representing)

Speaking in Favor: ☒

Speaking Against: ☐

Registering in Favor: but not speaking: ☐

Registering Against: but not speaking: ☐

Speaking for information only; Neither for nor against: ☐

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SENATE HEARING SLIP
(Please Print Plainly)

DATE: 3/29/00

BILL NO. AB 735
or
SUBJECT

Marty Muenzmaier
(NAME)

401 N. Lake St.
(Street Address or Route Number)

Neenah 54956
(City and Zip Code)

Kimberly-Clark Corp
(Representing)

Speaking in Favor: ✓

Speaking Against:

Registering in Favor: but not speaking:

Registering Against: but not speaking:

Speaking for information only; Neither for nor against:

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SENATE HEARING SLIP
(Please Print Plainly)

DATE: 3/29/00

BILL NO. AB 735
or
SUBJECT

Tom Ourada - Dept. of Revenue
(NAME)

(Street Address or Route Number)

(City and Zip Code)

(Representing)

Speaking in Favor: ✓

Speaking Against:

Registering in Favor: but not speaking:

Registering Against: but not speaking:

Speaking for information only; Neither for nor against:

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Madison, WI 53707-7882

SENATE HEARING SLIP
(Please Print Plainly)

DATE: 3/29/00

BILL NO. 735
or
SUBJECT single-factor sales apportionment

Cynthia A. Rooks & Joan Hansen
(NAME)

3700 W. Juneau Ave
(Street Address or Route Number)

Milw WI 53208
(City and Zip Code)

Harley-Davidson
(Representing)

Speaking in Favor: X

Speaking Against:

Registering in Favor: but not speaking:

Registering Against: but not speaking:

Speaking for information only; Neither for nor against:

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Madison, WI 53707-7882

SENATE HEARING SLIP
(Please Print Plainly)

DATE: 3-29-00

BILL NO. AB 735
or
SUBJECT Single factor

Joan Hansen
Cindy Rooks (Harley-Davidson)
(NAME)

501 E. Washington Ave
(Street Address or Route Number)

Madison, WI 53703
(City and Zip Code)

WMC
(Representing)

Speaking in Favor: [X]

Speaking Against: [ ]

Registering in Favor: but not speaking: [ ]

Registering Against: but not speaking: [ ]

Speaking for information only; Neither for nor against: [ ]

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Madison, WI 53707-7882

SENATE HEARING SLIP
(Please Print Plainly)

DATE: 3-29-00

BILL NO. AB 735
or
SUBJECT Single Sales

Chet Gerlach
(NAME)

44 E. Mifflin
(Street Address or Route Number)

Madison 53703
(City and Zip Code)

Sprint
(Representing)

Speaking in Favor: [X]

Speaking Against: [ ]

Registering in Favor: but not speaking: [ ]

Registering Against: but not speaking: [ ]

Speaking for information only; Neither for nor against: [ ]

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Madison, WI 53707-7882

SENATE HEARING SLIP
(Please Print Plainly)

DATE: 3-29-00

BILL NO. AB 735
or
SUBJECT

Jim Leonhart
(NAME)

(Street Address or Route Number)

(City and Zip Code)

AT&T
(Representing)

Speaking in Favor: [X]

Speaking Against: [ ]

Registering in Favor: but not speaking: [ ]

Registering Against: but not speaking: [ ]

Speaking for information only; Neither for nor against: [ ]

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Madison, WI 53707-7882

SENATE HEARING SLIP
(Please Print Plainly)

DATE: 9/29

BILL NO. AB 735
or
SUBJECT

Jon Peacock
(NAME)

16 N. Carroll Ste. 600
(Street Address or Route Number)

(City and Zip Code)

Wisconsin Budget Project of the WI Council on Children & Families
(Representing)

Speaking in Favor: [ ]

Speaking Against: [ ]

Registering in Favor: but not speaking: [ ]

Registering Against: but not speaking: [ ]

Speaking for information only; Neither for nor against: [X]

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Madison, WI 53707-7882

SENATE HEARING SLIP
(Please Print Plainly)

DATE: 3-29-00

BILL NO. AB 735
or
SUBJECT

Carl Glowcheski
(NAME)

P.O. Box 8050
(Street Address or Route Number)

Wisconsin Rapids WI 54495
(City and Zip Code)

Consolidated Papers
(Representing)

Speaking in Favor: [X]

Speaking Against: [ ]

Registering in Favor: but not speaking: [ ]

Registering Against: but not speaking: [ ]

Speaking for information only; Neither for nor against: [ ]

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Madison, WI 53707-7882

SENATE HEARING SLIP
(Please Print Plainly)

DATE: MARCH 29, 2000

BILL NO. AB 735
or
SUBJECT

ED WILUSZ
(NAME)

P.O. Box 718
(Street Address or Route Number)

NEENAH 54957
(City and Zip Code)

WISCONSIN PAPER COUNCIL
(Representing)

Speaking in Favor: [X]

Speaking Against: [ ]

Registering in Favor: but not speaking: [ ]

Registering Against: but not speaking: [ ]

Speaking for information only; Neither for nor against: [ ]

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Madison, WI 53707-7882

SENATE HEARING SLIP

(Please Print Plainly)

DATE: 3/29/00

BILL NO. AB 735
or
SUBJECT

Tony Studt
(NAME)

44 E. Mifflin St. #101
(Street Address or Route Number)

Madison WI 53703
(City and Zip Code)

WI Free Community Papers
(Representing)

Speaking in Favor: ☐

Speaking Against: ☐

Registering in Favor: but not speaking: ☒

Registering Against: but not speaking: ☐

Speaking for information only; Neither for nor against: ☐

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P.O.Box 7882
Madison, WI 53707-7882

SENATE HEARING SLIP

(Please Print Plainly)

DATE: 3-29-00

BILL NO. AB 735
or
SUBJECT

Steve Radke
(NAME)

720 E. Wisconsin Ave.
(Street Address or Route Number)

Milwaukee, WI 53202
(City and Zip Code)

Northwestern Mutual
(Representing)

Speaking in Favor: ☐

Speaking Against: ☐

Registering in Favor: but not speaking: ☒

Registering Against: but not speaking: ☐

Speaking for information only; Neither for nor against: ☐

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P.O.Box 7882
Madison, WI 53707-7882

SENATE HEARING SLIP

(Please Print Plainly)

DATE: 3-29-00

BILL NO.
or
SUBJECT Single Sales Factor

Ron Kuehn
(NAME)

2 E. Mifflin St.
(Street Address or Route Number)

Madison, WI 53703
(City and Zip Code)

SC Johnson & Son
(Representing)

Speaking in Favor: ☒

Speaking Against: ☐

Registering in Favor: but not speaking: ☐

Registering Against: but not speaking: ☐

Speaking for information only; Neither for nor against: ☐

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Madison, WI 53707-7882

SENATE HEARING SLIP
(Please Print Plainly)

DATE: 3/29/00

BILL NO. AB 735
or
SUBJECT Single Factor

Joseph T. VanDer Velden
(NAME)
W1962 Highview Ct
(Street Address or Route Number)
Sheboygan, WI 53083
(City and Zip Code)
Kohler Co.
(Representing)

Speaking in Favor: ☐

Speaking Against: ☐

Registering in Favor: but not speaking: ☒

Registering Against: but not speaking: ☐

Speaking for information only; Neither for nor against: ☐

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Madison, WI 53707–7882

SENATE HEARING SLIP
(Please Print Plainly)

DATE: 3-29-00

BILL NO. AB 735
or
SUBJECT

Scott Deitz
(NAME)
5836 Sarah Circle
(Street Address or Route Number)
Wi. Rapids, WI 54494
(City and Zip Code)
Consolidated Papers
(Representing)

Speaking in Favor: ☐

Speaking Against: ☐

Registering in Favor: but not speaking: ☒

Registering Against: but not speaking: ☐

Speaking for information only; Neither for nor against: ☐

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Madison, WI 53707–7882

SENATE HEARING SLIP
(Please Print Plainly)

DATE: 3/29/00

BILL NO. AB 735
or
SUBJECT Single Factor
Apportionment

Rodney J. Ripley, CPA
(NAME)
601 Rayovac Dr.
(Street Address or Route Number)
Madison, WI 53711
(City and Zip Code)
Rayovac Corporation
(Representing)

Speaking in Favor: ☐

Speaking Against: ☐

Registering in Favor: but not speaking: ☒

Registering Against: but not speaking: ☐

Speaking for information only; Neither for nor against: ☐

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Madison, WI 53707–7882

SENATE HEARING SLIP
(Please Print Plainly)

DATE: 3/29/00

BILL NO. AB 735
or
SUBJECT

James Buchen
(NAME)
501 E Washington
(Street Address or Route Number)
Madison
(City and Zip Code)
Wis. Manufacturers + Comm
(Representing)

Speaking in Favor: ☐

Speaking Against: ☐

Registering in Favor:
but not speaking: ☒

Registering Against:
but not speaking: ☐

Speaking for information only; Neither for nor against: ☐

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P.O.Box 7882
Madison, WI 53707-7882

SENATE HEARING SLIP
(Please Print Plainly)

DATE: 3/29/00

BILL NO. AB 735
or
SUBJECT

Brian Mitchell
(NAME)
660 E. Mason St
(Street Address or Route Number)
Milwaukee 53202
(City and Zip Code)
Marshall & Ilsley Corp.
(Representing)

Speaking in Favor: ☐

Speaking Against: ☐

Registering in Favor:
but not speaking: ☒

Registering Against:
but not speaking: ☐

Speaking for information only; Neither for nor against: ☐

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P.O.Box 7882
Madison, WI 53707-7882

SENATE HEARING SLIP
(Please Print Plainly)

DATE: 3/29/00

BILL NO. AB 745
or
SUBJECT

James E. Hough
(NAME)
10 East Doty St, Suite 500
(Street Address or Route Number)
Madison WI 53703
(City and Zip Code)
Wis. Economic Development Assoc.
(Representing)

Speaking in Favor: ☐

Speaking Against: ☐

Registering in Favor:
but not speaking: ☒

Registering Against:
but not speaking: ☐

Speaking for information only; Neither for nor against: ☐

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Madison, WI 53707-7882

SENATE HEARING SLIP
(Please Print Plainly)

DATE: ______

BILL NO. AB 735
or
SUBJECT ______

MICHAEL R. VAUGHAN
(NAME)
P.O. BOX 2038
(Street Address or Route Number)
MADISON, WI 53701
(City and Zip Code)
WISCONSIN INSTITUTE OF CPAs
(Representing)

Speaking in Favor:	
Speaking Against:	
Registering in Favor: but not speaking:	X
Registering Against: but not speaking:	
Speaking for information only; Neither for nor against:	

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Madison, WI 53707-7882

Assembly Hearing Slip
(Please print plainly)

SENATE HEARING SLIP
(Please Print Plainly)

DATE: 3/28/00

BILL NO. AB 735
or
SUBJECT Single Sales Factor

State Representative
(NAME)
Antonio Riley
(Street Address or Route Number)
______
(City and Zip Code)
18th Assembly District
(Representing)

Speaking in Favor:	
Speaking Against:	
Registering in Favor: but not speaking:	✓
Registering Against: but not speaking:	
Speaking for information only; Neither for nor against:	

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Madison, WI 53707-7882

SENATE HEARING SLIP
(Please Print Plainly)

DATE: 3-29-00

BILL NO. AB 735
or
SUBJECT

Dave Kluesner
(NAME)
16 N. Carroll St., Ste. 800
(Street Address or Route Number)
Madison, WI 53703
(City and Zip Code)
International Paper
(Representing)

Speaking in Favor: [ ]

Speaking Against: [ ]

Registering in Favor: but not speaking: [X]

Registering Against: but not speaking: [ ]

Speaking for information only; Neither for nor against: [ ]

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State Capitol – B35 South
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Madison, WI 53707-7882

SENATE HEARING SLIP
(Please Print Plainly)

DATE: 3-29-00

BILL NO. AB735
or
SUBJECT

Owen Schwerdtfeger
(NAME)
6000 American Pkwy
(Street Address or Route Number)
Madison, WI 53783
(City and Zip Code)
American Family Ins
(Representing)

Speaking in Favor: [ ]

Speaking Against: [ ]

Registering in Favor: but not speaking: [X]

Registering Against: but not speaking: [ ]

Speaking for information only; Neither for nor against: [ ]

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Madison, WI 53707-7882

SENATE HEARING SLIP
(Please Print Plainly)

DATE: 3-29-2000

BILL NO. AB 735
or
SUBJECT Single Sales Factor

John Exner
(NAME)
P.O. Box 1297
(Street Address or Route Number)
Madison, WI 53701
(City and Zip Code)
Midwest Food Processors Association
(Representing)

Speaking in Favor: [ ]

Speaking Against: [ ]

Registering in Favor: but not speaking: [X]

Registering Against: but not speaking: [ ]

Speaking for information only; Neither for nor against: [ ]

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Madison, WI 53707-7882

SENATE HEARING SLIP
(Please Print Plainly)

DATE: 3/29/00

BILL NO. AB 735
or
SUBJECT Single Sales

Paul Julius
(NAME)

502 E Main
(Street Address or Route Number)

Madison WI 53703
(City and Zip Code)

Midwest Food Processors Ass'n
(Representing)

Speaking in Favor: [ ]

Speaking Against: [ ]

Registering in Favor: but not speaking: [X]

Registering Against: but not speaking: [ ]

Speaking for information only; Neither for nor against: [ ]

Please return this slip to a messenger PROMPTLY.
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State Capitol – B35 South
P.O.Box 7882
Madison, WI 53707-7882

SENATE HEARING SLIP
(Please Print Plainly)

DATE: 3-29-2000

BILL NO. AB-735
or
SUBJECT

Senator
Grobschmidt
(NAME)

(Street Address or Route Number)

(City and Zip Code)
7 E Senate
(Representing)

Speaking in Favor: [X]

Speaking Against: [ ]

Registering in Favor: but not speaking: [X]

Registering Against: but not speaking: [ ]

Speaking for information only; Neither for nor against: [ ]

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P.O.Box 7882
Madison, WI 53707-7882

SENATE HEARING SLIP
(Please Print Plainly)

DATE: 3-29-00

BILL NO. AB 735
or
SUBJECT

Misha Lee
(NAME)

44 E Mifflin, Suite 305
(Street Address or Route Number)

Madison, WI 53703
(City and Zip Code)

Sentry Insurance
(Representing)

Speaking in Favor: [ ]

Speaking Against: [ ]

Registering in Favor: but not speaking: [X]

Registering Against: but not speaking: [ ]

Speaking for information only; Neither for nor against: [ ]

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State Capitol – B35 South
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Madison, WI 53707-7882

SENATE HEARING SLIP
(Please Print Plainly)

DATE: 3/29/00

BILL NO. AB 735
or
SUBJECT:

Ann Nischke
(NAME)

223 Wisconsin Ave
(Street Address or Route Number)

Waukesha 53186
(City and Zip Code)

Waukesha Area Chamber of Comm
(Representing)

Speaking in Favor: ☐

Speaking Against: ☐

Registering in Favor:
but not speaking: ☒

Registering Against:
but not speaking: ☐

Speaking for information only; Neither for nor against: ☐

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State Capitol – B35 South
P.O.Box 7882
Madison, WI 53707–7882

SENATE HEARING SLIP
(Please Print Plainly)

DATE: 3/28/00

BILL NO. AB735
or
SUBJECT:

Michael A Lehman
(NAME)

103 W State Capitol
(Street Address or Route Number)

Madison
(City and Zip Code)

Author
(Representing)

Speaking in Favor: ☒

Speaking Against: ☐

Registering in Favor:
but not speaking: ☐

Registering Against:
but not speaking: ☐

Speaking for information only; Neither for nor against: ☐

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State Capitol – B35 South
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Madison, WI 53707–7882

SENATE HEARING SLIP
(Please Print Plainly)

DATE: 3/29

BILL NO. AB 735
or
SUBJECT:

Sen. Shibilski
(NAME)

(Street Address or Route Number)

(City and Zip Code)

(Representing)

Speaking in Favor: ☒

Speaking Against: ☐

Registering in Favor:
but not speaking: ☐

Registering Against:
but not speaking: ☐

Speaking for information only; Neither for nor against: ☐

Please return this slip to a messenger PROMPTLY.
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State Capitol – B35 South
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Madison, WI 53707–7882

AB 735 -- Shifting to "Single Sales Factor" Taxation of Corporations

Testimony of Jon Peacock
March 29, 2000

Although some of the potential benefits of the proposed change in the income apportionment formula for corporations have been widely touted, a number of significant concerns have received very little attention.

1. Less than 2 percent of corporations doing business in Wisconsin will benefit from this tax break. About 3 percent will pay more taxes.

An analysis by the Department of Revenue found that if the single-sales factor apportionment formula had been in place in 1996, it would have benefited 2426 corporations, or less than two percent of all corporations doing business in the state. Those corporations would have received a $113.5 million tax cut, which would have been nearly 30 percent of the corporate income taxes paid by multi-state corporations. That reduction would be partially offset by increased taxes paid by a larger number of corporations – estimated by the DOR analysis to be 3,997. If this tax change had been in effect in 1996, it would have cost those corporations $42.6 million. Approximately 95 percent of corporations doing business in Wisconsin would not be affected by the proposed change in tax policy.

2. Adoption of this legislation will accelerate the steady decline in the proportion of state taxes paid by corporations.

The share of state taxes paid by corporations has dropped very substantially over the past decade or two. If one tracks the relative income tax contributions of corporations and individual income tax payers, the ratio of corporate to individual income taxes went from almost 20 percent in 1988 to 11.8% in 1999, and it would drop to about 10% if the single sales factor formula is implemented. To put it a little differently, in a little over a decade the ratio of individual to corporate income taxes would double.

3. The single sales factor formula is likely to cause some corporations not to locate jobs in Wisconsin.

It has been noted by the proponents of AB 735 that the single sales factor formula could promote the creation of jobs in Wisconsin because it removes the factors in the apportionment factor for multi-state corporations that potentially discourage them from locating employees and facilities in Wisconsin. What has not been noted is that the formula will also discourage the creation of jobs here. For many multi-state corporations it would increase their state taxes.

The DOR analysis referred to above found that the number of corporations adversely affected by this tax change would be about 65 percent greater than the number benefited. Specifically, if a corporation's percentage of sales in Wisconsin is greater than the sum of its percentage of

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employees and property in our state, it would be better off under the current double-weighted formula than under a formula that looks only at its percentage of sales in the state.

Take the example of a very large drug company that is considering setting up a small bio-tech research facility at the UW-Madison research park or near a campus in another state. If you accept the premise that taxes are a significant factor in a corporation's business location decisions (although most studies indicate otherwise), the drug company would be better off locating its new facility in a state that uses the current double-weighted factor, rather than a single-sales-factor formula.

4. Some Corporations May Eliminate Jobs in Wisconsin to Avoid the Adverse Impact of the New Formula.

For reasons similar to those noted above, some corporations may actually reduce or eliminate their Wisconsin-based employees. A large multi-state corporation that has a larger percentage of its sales in Wisconsin than its combined percentage of employees and property in the state will face a higher corporate income tax here if the proposed formula change is adopted. However, as a detailed analysis by the Center on Budget and Policy Priorities (CBPP) explains, federal law precludes a state from taxing corporations that do not have a physical presence within the state. Some of the nearly 4,000 businesses that would face more than $40 million in tax increases because of the formula change would probably eliminate employees or restructure their operations to take advantage of the federal law, and thereby totally eliminate the ability of Wisconsin to subject them to a corporate income tax.

5. The fiscal impact of the bill could grow to be substantially more than $80 million annually.

Because the bill would adversely affect some large multi-state corporations (as explained above), they would have a substantially increased incentive to restructure their operations to avoid taxation in Wisconsin. This could significantly increase the $80 million price tax loss that has been projected to occur when the bill is fully implemented. The CBPP paper explains this issue more thoroughly, as well as why these considerations made it very sensible for the Governor to propose coupling the single sales factor change with the adoption of a combined reporting system.

6. The bill would substantially worsen the state's very large structural deficit.

After the Governor made his vetoes of various spending items in the biennial budget bill, the state had a projected imbalance between revenues and expenditures in the 2000-01 fiscal year of about $400 million. Fortunately, the new revenue and expenditure estimates released in January showed that there is expected to be about $360 million in additional revenue available, which offered an opportunity to address the structural deficit problem. However, the property tax rent credit (PTRC) legislation approved by the Assembly and the mini-budget bill approved in the Senate would increase the structural imbalance.

If the increased PTRC is enacted, the structural imbalance in the second year of this biennium would be about $500 million. Since that is the base for the next biennial budget, the state would start out the 2001-2003 biennium with a structural imbalance of roughly $1.7 billion (the $500 million gap counted for each of the next two years, plus about $700 million that the Fiscal Bureau has identified as the minimum cost-to-continue expenses, such as the two-thirds funding requirement for public schools). In other words, barring any new budget re-estimates, revenues need to grow by $1.7 billion in the next biennium just to pay for unavoidable commitments, without any other spending increases (such as cost-of-living raises for state workers). The state's ability to deal with a structural deficit of that magnitude will be adversely affected by phasing-in a tax break that will ultimately cost at least $80 million per year.

The question often arises whether a tax cut such as this will result in a shift in tax burden to other taxpayers. There is not a clear-cut answer to that question. However, the tremendous magnitude of the state's structural deficit will make it difficult to phase-in a substantial tax cut without either making deep spending cuts or shifting the tax burden to another group of taxpayers.

7. Other Tax Changes Would Do More to Level the Playing Field

Some proponents have argued that AB 735 will "level the playing field" among corporations. Although making the proposed change in apportionment formula might be more equitable in some instances (depending on how an out-of-state corporation is taxed in its home state), the bill does not address some of the most serious inequities. Two other tax changes would go much further toward leveling the playing field. One of these is the adoption of the "combined reporting" tax system that was proposed by the Governor as part of the budget. That change would reduce the ability of multi-state corporations to dodge income taxes in Wisconsin by shifting their profits to subsidiaries in other states. Second, applying the sales tax to Internet sales (by, for example, sunsetting the current federal moratorium) would bring about fairer competition between Wisconsin merchants and their Internet competitors.

Note: Many of the issues discussed in this analysis are explained more fully in a paper prepared by the Center on Budget and Policy Priorities, "Adopting a 'Single Sales Factor' Formula Without Requiring Combined Reporting Will Reduce State Revenues With No Guarantee of More In-State Jobs" (June 30, 1999). Copies of that paper can be obtained by calling the Wisconsin Budget Project at 284-0580 ext. 307.

June 30, 1999

Taxing the Profits of Multistate Corporations In Wisconsin:

Adopting a "Single Sales Factor" Formula Without Requiring Combined Reporting Will Reduce State Revenues With No Guarantee of More In-State Jobs

by Michael Mazerov

As part of his budget plan for the 1999-2001 biennium, Governor Thompson proposed two significant changes to Wisconsin's "apportionment" rules that determine how multistate corporations assign a share of their profits to the state for tax purposes. There are two basic types of decisions that states must make in taxing multistate corporations. States have latitude to determine both the way in which corporations will report their *total* profits, and the way in which the *share* of profits taxable in the particular state will be calculated. Governor Thompson's original proposal affected both these decisions, although he ceased his effort to obtain enactment this session of the first of the two changes.

- The first proposed change would have mandated the use of "combined reporting," a tax accounting rule intended to insure that corporations doing business in Wisconsin report *all* their income to the state. The typical large multistate corporation is actually comprised of a parent and numerous subsidiaries; under current Wisconsin law, each of the individually-incorporated businesses that makes up a large multistate enterprise reports its profits to the state separately. This "separate-entity accounting" allows multistate corporations to devise legal structures that shelter income from state taxation and thereby avoid paying their fair share of Wisconsin's corporate income tax. The proposed switch to combined reporting would have shut down this loophole.

- The second change would lower the share of total profits taxable in Wisconsin for some corporations and raise the share for others; on net, profits taxable in Wisconsin would decline. Switching to the so-called "single sales factor" or "sales-only" apportionment formula would provide

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a selective corporate income tax cut to Wisconsin corporations that sell a large share of their goods outside the state — predominantly manufacturers. For businesses that produce their goods out of state but sell them primarily or entirely within Wisconsin, however, the change to a single sales factor apportionment formula would increase corporate income tax payments.

The business community vehemently opposed combined reporting and mounted an intense campaign against it. On June 8th, the Thompson administration announced it would abandon its effort to mandate combined reporting but would continue to support the single sales factor apportionment formula — a change business supports. The Assembly followed suit, approving a tax package that phases-in single sales factor apportionment over three years beginning in tax year 2001. The Senate, on the other hand, is expected to retain current law by rejecting both combined reporting and the proposed change to a single sales factor formula. A Senate-Assembly conference committee would then decide whether to change the apportionment formula as part of its broader effort to agree on a 1999-2001 biennium budget and a tax restructuring package.

The original Thompson Administration proposal was close to being revenue-neutral; requiring combined reporting was estimated to raise $70 million annually while the change to a sales-only apportionment formula reduces revenue by $80 million annually when fully phased in. Thus, if the legislature adopts the Assembly proposal to phase-in the revenue-reducing single sales factor formula without also implementing the revenue-raising combined reporting requirement, Wisconsin will be left with a combination of corporate income apportionment policies that will widen the state's looming $1.7 billion budget gap for the 2001-03 biennium.

The combination of sales-only apportionment and separate-entity accounting will also provide greater opportunities and incentives than exist at present for multistate corporations to reduce their Wisconsin tax liability by gaming the state's tax system, thereby shifting tax burdens to other Wisconsin citizens and businesses.

- Without combined reporting, corporations doing business in Wisconsin will continue to take double advantage of Wisconsin's loopholes. Under Wisconsin's current separate-entity accounting rules, companies can hide substantial amounts of profits in tax-haven states where they are free of Wisconsin taxation. In addition, the corporations can continue to deduct from their income the expenses associated with earning the tax-sheltered profits, thereby further reducing Wisconsin income tax liability. As a result, corporations that operate in the state and use the Wisconsin infrastructure and public services that make business operation possible evade paying their fair share of the cost of those services.

- Enactment of a single sales factor apportionment formula would give multistate corporations already paying less than their fair share of corporate tax because of the absence of combined reporting a new tax break estimated to cost the state $80 million annually when fully phased in.

- Moreover, if the single sales factor formula is adopted without simultaneously requiring combined reporting, the annual reduction in corporate tax revenues could be considerably larger than $80 million. The absence of combined reporting already makes it possible for corporations doing business in Wisconsin to shift profits earned in Wisconsin to related out-of-state corporations, but for some the additional costs and operational complexities in doing so may outweigh the tax savings. To the extent that the tax bills of these corporations increase due to adoption of a single sales factor formula; however, profit-shifting strategies would become more attractive. The Wisconsin Department of Revenue's estimate of an $80 million net revenue loss from the change to a single sales factor formula did not attempt to take into account the likelihood and ability of corporations facing tax increases to step-up their efforts to shift their profits out of Wisconsin. Accordingly, this revenue loss estimate is likely to be too low.

- Proponents of a single sales factor formula claim the change will stimulate job creation in Wisconsin by attracting more companies that sell most of their goods outside the state and by encouraging the in-state expansion of existing companies that export their products. The evidence suggests, however, that any such effect is likely to be small. While many factors determine a state's attractiveness to business, an overwhelming body of research suggests that tax policy plays at most a small role in creating a positive business climate.

- Even assuming that the proposed change to a single sales factor formula could attract some investment, such a change is a double-edged sword that could just as easily lead to a net job loss as a net job gain. Because federal law prohibits the states from taxing a business that makes sales in a state but has no presence in the state other than salespeople, those out-of-state corporations that would pay higher taxes under a sales-only formula would have an incentive to move all of their non-sales jobs and property out of Wisconsin. Such job losses could outweigh any jobs gained as a result of the modest incentive created by a sales-only formula for the location of new manufacturing plants in Wisconsin. Moreover, job losses could render the revenue loss from a change to a single sales factor formula even deeper than currently projected. Just as the Wisconsin Department of Revenue's estimate of the fiscal impact of the sales-only formula did not attempt to take into account the possibility that corporations could restructure their operations to shift income out of Wisconsin, it similarly did not attempt to factor-in the possibility that some corporations could pull jobs out of the state.

Switching to a single sales factor apportionment formula is thus a risky economic development strategy for the state and a threat to its fiscal stability as well. Enactment of a single sales factor apportionment formula without mandatory combined reporting is an invitation to even more serious erosion of Wisconsin's corporate income tax base than is already occurring. Moreover, there is little evidence to support the assertion of single sales factor proponents that Wisconsin will realize a net gain in jobs from changing its corporate tax apportionment formula.

Wisconsin Loses Considerable Tax Revenue from Failing to Require Multistate Corporations to Report Their Profits Using Combined Reporting

When corporations are multistate in nature — when they produce and/or sell their goods and services in more than one state — states that tax corporate profits must implement rules to determine the share of the corporation's total profit they will tax. The U.S. Supreme Court and the Congress have allowed states considerable latitude in designing these so-called "apportionment" rules.

The legal structure of the typical large multistate corporation presents one challenge to the development of state corporate income tax apportionment policy. What we view as *one* multistate corporation is actually likely to be comprised of a parent corporation and numerous subsidiary corporations. For example, a multistate petroleum business may be comprised of a parent company that manages the operations of different subsidiaries that own oil fields, pipelines, refineries, and gas stations.

In developing apportionment rules, states face two basic alternatives in dealing with the fact that most major multistate corporations are in fact multi-corporate groups. About two thirds of the states with corporate income taxes — including Wisconsin — recognize for tax purposes the separate legal existence of every corporation in a corporate group. Such recognition is referred to as "separate-entity" accounting. Under separate-entity accounting, if a parent corporation and several of its subsidiaries are subject to corporate income tax in Wisconsin, each of them files its own tax return, and the profit each corporation reports on that return is completely determined by the companies' own internal accounting.

An important implication of this tax accounting freedom is that if one member of a corporate group sells a good or service to another member, the profits that both of them realize — and report for tax purposes — will be affected by the "transfer price" at which the sale occurs. Profit is the difference between revenues and expenses. The transfer price charged on a sale from one member of a corporate group to another affects the profits of the seller because it affects the seller's revenues and the profits of the purchaser because it affects the purchaser's expenses. Thus, if the seller is in one state and the purchaser is in another, a corporation's freedom to set transfer prices that will be recognized for tax purposes is tantamount to having freedom to determine in which state its profits will be taxed.

Governor Thompson recommended eliminating separate-entity tax treatment of multi-corporate groups in Wisconsin in favor of the principle alternative — mandatory "combined reporting." Under combined reporting, all of the related corporations that are engaged in different pieces of the same basic business that is being conducted in Wisconsin are essentially treated as one taxpayer and their profits are combined (added together) for corporate income tax purposes.[1] For example, if a parent corporation owns dairy farms and a cheese processing plant in Wisconsin, a mail-order subsidiary in South Dakota that sells the cheese, and a subsidiary that operates retail stores throughout the United States that also sell the cheese, a share of the combined profit of the entire enterprise would be taxed by Wisconsin if it required combined reporting.

One of the most important advantages of combined reporting is that it prevents all kinds of games that corporations have learned to play to slash their income tax liabilities in separate-entity states like Wisconsin. In recent years, corporations have become increasingly aggressive in manipulating their legal structures — the way they divide into separate corporations and transact business between parents and subsidiaries — to shift their profits out of separate-entity states like Wisconsin and into tax-haven states like Nevada and Delaware. The Wisconsin Department of Revenue estimates that if Wisconsin were to adopt combined reporting with no other change in current law, multistate corporations would pay $70 million more corporate taxes to the state annually.[2] By eliminating the ability of corporations to artificially shift profits that are actually earned in Wisconsin to related corporations in other states, combined reporting helps insure that corporations pay their fair share of the cost of services that facilitate their Wisconsin operations — like the schools and universities that train their workers and the police that protect their property. The U.S. Supreme Court has twice upheld the fundamental fairness and constitutionality of combined reporting as a means of ensuring that corporations pay their fair share of the costs of state government.[3]

Had the legislature accepted Governor Thompson's recommendation that Wisconsin mandate combined reporting, Wisconsin would have adopted the single most important policy a state can implement to ensure the viability of its corporate income tax. Without combined reporting, Wisconsin faces a steady erosion of its

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[1] Even under combined reporting, the separate corporations in the corporate group are generally required to file their own tax returns. Combined reporting differs from separate-entity accounting, first, in that the *calculation* of tax liability is based on the combined profit of the corporate group engaged in a common "unitary business" and, second, that the combined profit ignores (subtracts out) profits earned as a result of transactions between members of the group.

[2] Wisconsin Legislative Fiscal Bureau Paper #112, June 7, 1999, p. 14, paragraph 19.

[3] *Container Corporation of America* v. *California Franchise Tax Board*, 1983; *Barclays Bank* v. *California Franchise Tax Board*, 1994.

corporate tax base as more and more of its multistate corporate taxpayers devise new strategies for exploiting the weaknesses of separate-entity taxation. (One such strategy, widely employed by Wisconsin's banking industry, is described in the text box on page 8.)

How a Single Sales Factor Apportionment Formula Would Affect the Corporate Income Tax Liability of Wisconsin's Multistate Corporations

Once states have decided *what* to tax — the profits of individual corporations under "separate-entity" accounting principles or the aggregated profit of the corporate group under combined reporting — the question remains of *where* to tax it. To avoid the states collectively taxing more than 100 percent of a multistate business' profit, agreement among the states is desirable on what *share* of a multistate corporation's profit or of a multistate corporate group's combined profit each state shall be allowed to tax. Those agreements are reflected in the apportionment formulas that are an integral component of the tax laws and corporate tax liability calculations of each state levying a corporate income tax.

Basic economic theory teaches that the price a good fetches in the marketplace — and hence the profit the seller earns upon its sale — is determined by the intersection of supply and demand. A general consensus exists among the states that since public services facilitate both sides of the supply-demand equation, the states in which a particular multistate corporation's *production* occurs and the states in which its *selling* occurs should be allowed to tax roughly equal shares of its profit. This consensus is reflected in the following apportionment formula that a majority of states — including Wisconsin — use to determine the share of a multistate corporation's total profit they will tax. The proportion of profits taxed in most states reflects the proportion of the company's property and employment located in the state and the proportion of total sales the company makes to the state's residents, with sales given a double weight:

$$\left(\begin{matrix}\text{Profit of Corp. X}\\ \text{Taxable in WI}\end{matrix}\right)=\left(\begin{matrix}\text{Total profit}\\ \text{of Corp. X}\end{matrix}\right)*\left[\left(\frac{\text{WI property of Corp. X}}{\text{Total property of Corp. X}}\right)+\left(\frac{\text{WI payroll of Corp. X}}{\text{Total payroll of Corp. X}}\right)+2*\left(\frac{\text{WI sales of Corp. X}}{\text{Total sales of Corp. X}}\right)\right]\div 4$$

Under this formula, if Wisconsin Widget Company has 30 percent of its total company-wide property in Wisconsin, 10 percent of its company-wide employee payroll there, and delivers 50 percent of its company-wide sales to Wisconsin residents, (30% + 10% + 50% +50%) ÷ 4 — or 35 percent — of Wisconsin Widget Company's total nationwide profit will be taxable by Wisconsin.

Wisconsin Banks to the State's Treasury: "Heads I Win, Tails You Lose"

According to numerous press reports over the years, Wisconsin's banks have been among the most active members of its corporate community in taking advantage of the state's lack of combined reporting to minimize their tax obligations to the state.

The method used by the banks to reduce their Wisconsin corporate taxes could not be more simple; the banks simply transfer their investment portfolios of bonds and other securities to subsidiaries they establish in Nevada or Delaware in exchange for stock in the subsidiaries. Since Nevada does not have a corporate income tax and Delaware does not tax earnings on intangible assets like securities and patents, the earnings on these securities are not taxed anywhere — not in Nevada, Delaware, or Wisconsin.

According to the *Milwaukee Business Journal*, by 1991 virtually all of the bank holding companies in Wisconsin had transferred their investment securities portfolios to newly-created subsidiaries in Nevada or Delaware. First National Bank of Milwaukee told the *Journal* it expected to save $700,000 in Wisconsin taxes each year from its use of a Nevada subsidiary; Valley Bancorporation of Appleton estimated its Wisconsin corporate franchise tax savings at $1.8 million annually. More recently, the Wisconsin-based bank holding company Marshall & Ilsley Corporation acknowledged that its use of Nevada corporations saved between $9 million and $13 million annually in Wisconsin corporate taxes.

These press reports indicate that the banks' use of Nevada and Delaware subsidiaries to reduce their Wisconsin tax liabilities has not gone unnoticed; indeed, Governor Thompson cited the phenomenon as the prime motivator of his combined reporting recommendation. What has not been noted thus far is that separate entity apportionment allows the banks to reduce their Wisconsin corporate tax liabilities coming and going: even as they succeed in putting the *income* from their investment securities beyond the state's tax reach, Wisconsin corporate income tax revenues are likely being further depressed by the deduction of *expenses* associated with that non-taxable income. For example, the interest paid to Wisconsin depositors, the advertising expenses that help attract the deposits, and the salaries of the tellers who service the depositors are all deductible expenses against the banks' remaining profits that are taxable by Wisconsin — even as interest earnings on securities purchased with the deposits and transferred to Nevada escape taxation. The banks are in the proverbial, "heads I win, tail you lose" situation.

If Wisconsin adopted combined reporting, the profits of the banks' tax-haven subsidiaries would be added to the profits of their Wisconsin parents and then a share of this combined profit would be taxed by Wisconsin. The Wisconsin banks have complained that this would increase their Wisconsin taxes. That is true, but it is only because combined reporting prevents them from putting beyond Wisconsin's tax reach income from assets that are inextricably intertwined with their existing Wisconsin activities. The banks are taking deposits in Wisconsin from Wisconsin residents and earning profits from the assets in which those deposits are invested. Wisconsin governments provide public services to the facilities in which those deposits are taken and from which the investments are made. Wisconsin's system of laws and its courts are available to both the banks and their depositors, and this contributes to the willingness of each to engage in business with the other. Accordingly, it is entirely reasonable for Wisconsin to insist through the adoption of combined reporting that the banks pay their fair share of tax on the profits that Wisconsin public services help generate.

By counting the share of a corporation's sales that are made in a particular state twice, this so-called "double-weighted sales factor" formula gives equal weight to the two supply- or production-related factors (property and employee payrolls) and the one demand- or market-related factor (sales) in apportioning corporate profits among the states.

Now, however, Governor Thompson and the Assembly would have Wisconsin join a small minority of corporate income tax-levying states that have abandoned the consensus that exists on fair apportionment principles. Under the proposed single sales factor apportionment formula, the shares of Wisconsin Widget's total payroll and property located in Wisconsin would no longer affect the company's Wisconsin tax calculation. Under a single sales factor formula, the proportion of a company's total sales that are made and delivered to Wisconsin residents would be the sole determinant of the share of its total profit that Wisconsin would tax. Fifty percent of Wisconsin Widget Company's profit would be taxable by Wisconsin because 50 percent of its sales are delivered to customers within the state. More generally, the share of Corporation X's total profit taxable by Wisconsin under single sales factor apportionment would be calculated as follows:

$$\begin{pmatrix}\text{Profit of Corp. X}\\ \text{Taxable in WI}\end{pmatrix} = \begin{pmatrix}\text{Total profit of}\\ \text{Corp. X}\end{pmatrix} * \left(\frac{\text{WI Sales of Corp. X}}{\text{Total Sales of Corp. X}}\right)$$

Substituting a single sales factor apportionment formula for the current property, payroll, and double-weighted sales formula has the effect of cutting the Wisconsin corporate income tax liability of corporations that produce goods in Wisconsin and sell a disproportionate share of these goods to non-Wisconsin customers. This is most easily understood by contrasting the tax liability of a company with all of its property and payroll in Wisconsin and all of its sales out of state under the double-weighted sales formula and under the sales-only formula. Under the current formula, 50 percent of this company's total profit would be taxable by Wisconsin — 100% of property in Wisconsin + 100% of payroll in Wisconsin + 0% of sales in Wisconsin +0% of sales in Wisconsin ÷ 4 = 50% of total profit taxable in Wisconsin. Under a single sales factor formula, however, such a company will not owe *any* Wisconsin corporate income tax. With sales-only apportionment, the company's Wisconsin taxable income is determined by multiplying its total profit by the share of its sales delivered in Wisconsin; since this share is zero, the company's Wisconsin taxable income is zero. Thus, a company with a disproportionate share of its sales outside of Wisconsin will pay less corporate tax to Wisconsin if the state switches to a sales-only formula.